

## ZBR PROGRAM UPDATE - FOLLOW UP REPORT

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### EXECUTIVE SUMMARY

This report fulfils Administration's commitment to report back to Priorities and Finance Committee to identify ways to coordinate and clarify the roles of the ZBR and audit functions. It reflects the results of discussions between Administration and the City Auditor, clarifies the respective roles of the two functions, and outlines a plan to avoid confusion going forward.

### ADMINISTRATION RECOMMENDATION(S)

That the Priorities and Finance Committee receive this report for information.

### PREVIOUS COUNCIL DIRECTION / POLICY

The Zero-Based Review (ZBR) program was created by Administration as part of its response to Council's direction to become "a more effective and disciplined organization" (C2011-65). Since the program was launched, it has been the subject of ongoing refinement, reflecting the application of a "continuous improvement" mindset to the ZBR program itself.

In November, 2015, Administration brought ZBR Update report to Priorities and Finance Committee (PFC2015-0903) in response to some questions about the program that had been raised by Councillor Sutherland. The report identified a number of additional improvements to the ZBR method. Most were endorsed by Priorities and Finance Committee and subsequently by Council. Two recommendations, both related to the creation of a new advisory committee, was referred back to the City Manager for further analysis, with a direction to report back to Priorities and Finance Committee by Q2, 2016.

### BACKGROUND

One of the questions addressed in the November, 2015 report was about the difference between Zero-Based Service reviews and audits. The November, 2015 report provided information on how the two functions serve different purposes, and how it is common practice for organizations to have both. It also proposed the creation of an advisory committee (with representation from the Chair of the Audit Committee and the Vice-Chair of Priorities and Finance Committee), which would provide a forum to clarify the respective roles of ZBRs and audits, and the opportunity to provide advice on overall ZBR program matters.

Discussion at Priorities and Finance Committee indicated that Committee members felt there may be a better way to address these questions than creating a new advisory Committee, and requested further analysis by Administration. That analysis is the subject of this report.

### INVESTIGATION: ALTERNATIVES AND ANALYSIS

Staff from Corporate Initiatives have held discussions with the City Auditor to clarify the respective roles of the programs and agree on a plan to ensure clarity going forward.

The discussions included information on current City of Calgary policies and practices (e.g. mandates of the functions) as well as some additional jurisdictional research. This has confirmed that most progressive organizations have both audit and internal service reviews (such as the ZBRs) which serve different purposes and have different mandates, and that there is an important role for both.

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Some of the key differences are:

<b>Audits</b>	<b>Service Reviews (ZBRs)</b>
Provide independent assurance for Council.	A tool for management to improve its own performance.
Focussed on risk.	Focussed on cost savings.
No particular result expected: may validate current practices or recommend change.	Efficiency and effectiveness gains are an expected result.
Independent of Administration.	Objective, but not independent of Administration.

The discussions also uncovered several potential sources of confusion, which may have led both Council members and members of Administration to perceive an overlap between ZBRs and Audits. Among the sources of confusion are:

- The use of the word “independent” to describe ZBRs (the term is usually reserved for audits, and linked to assurance);
- The format of ZBR reports to Council, which include detailed external consultant’s analysis and recommendations and Administration’s response (which is somewhat similar to how audits are presented)
- The level of detail in ZBR reports, where all recommendations (and not only those beyond Administration’s authority and/or directly affecting public service) are brought for Council approval. This, again, is reminiscent of how an audit report may look – even though many service improvement initiatives started within Administration do not require Council approval.

To address this, the City Auditor and Corporate Initiatives have identified the following steps.

1. Communicate to Priorities and Finance Committee and the organization the distinct role and benefits of having two programs.
2. Clarify some language in the ZBR program, notably the use of the term “independent”.
3. Identify and propose further changes to the ZBR program:
  - The ZBR program has already evolved to bring more decision within Administration, and focus Council more on outcomes;
  - Further changes may be proposed in 2016, which could help to further clarify the differences.
4. Continue to work together to manage any potential overlaps in schedules (recognizing that the City Auditor retains the authority to audit a function at any time, based on risk).

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It was also agreed that the points above would be included in this report back to Priorities and Finance Committee, as a first step in communicating the different roles of the two functions.

Given the plan outlined above, Administration has concluded that creation of the ZBR advisory committee is not necessary.

Administration has committed to return to Council later in 2016 with a ZBR program update, including a recommendation on candidates for the cross-functional ZBRs, which are among the reviews scheduled in the final two years (i.e. 2017 and 2018) of the current ZBR program. When this program update report is brought forward, Administration will also identify further improvements to the ZBR method, in order to further clarify its distinct purpose.

### **Stakeholder Engagement, Research and Communication**

The City Auditor was consulted in the development of this report, and its contents reflect consensus on respective roles, issues and next steps.

### **Strategic Alignment**

The ZBR program response to several Council Priorities under “A Well-Run City”, notably W2: Be as efficient and effective as possible, reducing costs and focusing on value for money.

It also helps to fulfill one of the City Manager’s commitments under the Council-approved Leadership Strategic Plan, to implement an Integrated Performance Management System, including “zero-based service review and improvement.”

### **Social, Environmental, Economic (External)**

There are no direct implications from this report.

### **Financial Capacity**

#### **Current and Future Operating Budget:**

There are no direct operating budget impacts to this report.

#### **Current and Future Capital Budget:**

There are no direct capital budget impacts to this report.

### **Risk Assessment**

Confusion about the relative roles of ZBRs and Audits presents several risks. Business Units may not be aware of the difference, and may believe that an audit is not necessary if they have undergone a ZBR (or vice versa). There is also a risk of implied independent assurance from ZBR reports when they are not in fact intended to provide that. Clarification of the distinct roles of the two programs, followed by future method improvements, will help to mitigate these risks.

### **REASON(S) FOR RECOMMENDATION(S):**

This report fulfils Administration’s commitment to report back to Priorities and Finance Committee and identify ways to coordinate and clarify the roles of the ZBR and audit functions.

### **ATTACHMENT(S)**

None